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- 1 Interim Regulations of the PRC on Value Added Tax (2008 Revision)**
- 2 Interim Regulations of the PRC on Consumption Tax (2008 Revision)**
- 3 Interim Regulations of the PRC on Business Tax (2008 Revision)**

On November 10th 2008, Prime Minister Wen Jiabao signed the Orders of the State Council to promulgate respective amendments to *the Interim Regulations of the PRC on Value Added Tax*, *the Interim Regulations of the PRC on Business Tax*, and *the Interim Regulations of the PRC on Consumption Tax*. These newly amended regulations will come into effect on January 1st 2009. All three amendments are cooperatively drafted by the Office of Legislative Affairs of the State Council, the Ministry of Finance and the State Administration of Taxation.

Since July 1st, 2004, upon approval of the State Council, dozens of cities as old industrial bases in the Central and Northeastern Regions carried out trial reforms on VAT. The State Council initiates this round of revisions to reform the value added tax system throughout the country and respond to international financial crises by expanding the domestic demand. However, due to the limitation of time, this round of amendments does not affect the tax preferential policies adopted by the state. All the three revised regulations entitle the State Council to prescribe exemption and reduction of tax items.

Interim Regulations of the PRC on Value Added Tax (2008 Revision)

《中华人民共和国增值税暂行条例》(2008年修订)

Issued By	State Council
Subject	Value Added Tax
Promulgated on	November 10th 2008
Effective from	January 1st 2009
Source	http://www.chinalaw.gov.cn

The main goal of the Interim Regulations of the PRC on Value Added Tax is to transform China's VAT from a production-oriented tax into a consumption-oriented tax. According to the previous Interim Regulations of the PRC on Value Added Tax which was enacted in 1993, Input tax on purchases of fixed assets was not allowed to be deducted from the output tax, which would not spur the enterprises to commit themselves to technology improvements by purchasing new manufacturing equipment, machinery and other fixed assets. Under article 10 of the new Interim Regulations of the PRC on Value Added Tax, this obstacle has been removed, and therefore an incentive to further investment in fixed assets has been provided for.

Following is a list of the main changes stipulated by this revised regulation:

1. In the past, input VAT on purchases of fixed assets was not allowed to be credited against the output VAT. After this amendment, the amount of VAT (tax on products) included in price paid for purchasing machinery and equipment can be deducted from a company's output VAT.
2. However, the amended regulation stipulates that the input tax on taxpayers' self-use consumables cannot be offset against or be deducted from the output tax amount.
3. The tax rate for the VAT on small-scale taxpayers has been reduced from 6% to 3% by this new revision, in order to enhance the development of medium and small sized enterprises and to promote employment.
4. The new regulation embodies some current policies on VAT by absorbing them as new clauses. Meanwhile, Equipment and machinery required to be imported under contract processing, contract assembly and compensation trade is not exempted from VAT anymore under the new regulation.
5. In order to meet the actual needs of the taxation practice, and for the purposes of facilitating tax payments, the previous 10-day period for filing tax return of the VAT has been increased to 15 days. In addition, the revised regulation stipulates how to identify withholding obligors for taxpayers who are outside the territory of the People's Republic of China. The time when an obligation to withhold the VAT arises, the payment places for withholding obligors and the time limit for withholding obligors to deliver payment are also clarified by this recent amendment.

Interim Regulations of the PRC on Consumption Tax (2008 Revision)

《中华人民共和国消费税暂行条例》(2008年修订)

Issued By **State Council**
Subject **Consumption Tax**
Promulgated on **November 10th 2008**
Effective from **January 1st 2009**
Source <http://www.chinalaw.gov.cn>

Given the correlations among the VAT, Business Tax and Consumption Tax, The state also amended the regulations on Business Tax and Consumption Tax accordingly.

The regulation on Consumption Tax is amended mainly in regard to the following two aspects:

1. The regulation is updated according to the relevant adjustment policies that have been promulgated since 1994.
2. To achieve a consistency between the regulations on VAT and Business Tax, the period for filing tax return for the Business Tax has been increased to 15 days, and certain adjustments have been made to the clauses involving tax payment places and other relative issues.

Interim Regulations of the PRC on Business Tax (2008 Revision)

《中华人民共和国营业税暂行条例》(2008年修订)

Issued By **State Council**
Subject **Business Tax**
Promulgated on **November 10th 2008**
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The regulation on Business Tax has been modified regarding the following four aspects:

1. The place for the payment of the business tax has been adjusted. Previously, taxpayers providing taxable services were required to report and pay the tax to the competent tax authorities at the place where the taxable services have taken

place. Now, they are supposed to file a tax return to the competent tax authorities at the place where their offices or places of residence are located.

2. The turnover of the taxpayers who are engaged in the re-lending businesses shall be the total price and all other expenses receivable from the provision of taxable services. Under the old regulation, the turnover for re-lending businesses was considered to be the balance of interest on lending less the interest on borrowing.
3. Due to the difficulty of elaborating the scope of charge for the Business Tax, the revised regulation deletes a column of "Scope of Charge" in the Business Tax Taxable Items and Tax Rates Table, which was the annex to the previous regulation and leaves it to detailed provisions by the Ministry of Finance and the State Administration of Taxation.
4. To achieve a consistency between the regulations on VAT and Business Tax, the period for filing tax return has been increased to 15 days. The revised regulation also stipulates how to identify withholding obligors for taxpayers who are outside the territory of the People's Republic of China. When an obligation to withhold the Business Tax arises, The Business Tax payment places for withholding obligors and the time limit for withholding obligors to deliver tax payment are also clarified by this amendment.

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